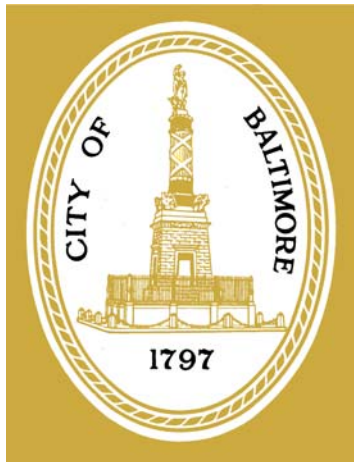


PERFORMANCE AUDIT REPORT

CITY OF BALTIMORE
DEPARTMENT OF LAW
OFFICE OF RISK MANAGEMENT
LIABILITY IMPREST ACCOUNTS
AUGUST 2002



City of Baltimore
Department of Audits

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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August 13, 2002

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

BACKGROUND:

This report conveys the results of our audit of the imprest fund checking accounts for automotive and general liability claims maintained jointly by the Baltimore City Office of Risk Management (ORM) and the Law Department. This audit was requested by ORM.

There are two imprest fund checking accounts, one for automotive liability and one for general liability, which are used for the payment of claims against the City for personal injury and property damage arising from the operation of City vehicles or from the general operations of the City. Payments are made in those instances where the City is deemed liable or where the City and the claimant agree to a compromise settlement.

The automotive liability imprest fund checking account has been in existence for more than twenty years. The general liability imprest fund checking account was authorized in 1982. The accounts were dormant for a period of time, but they became active again at the beginning of fiscal year 2001 when the City implemented a new tracking system called STARS for managing claims.

The imprest fund amounts are \$10,000 for automotive liability and \$20,000 for general liability. There is a ceiling of \$5,000 on imprest account checks. Claim payments in excess of that amount must be made using a City check. The imprest checks are issued by the Law Department, and reimbursements are requested by ORM from the Bureau of Accounting and Payroll Services.

OBJECTIVES AND SCOPE:

The objective of this audit was to determine if the procedures and controls established to administer the two liability imprest checking accounts are adequate and performed efficiently and to determine whether payments made through these accounts were for valid claims and in compliance with policies governing the accounts.

We limited the scope of this audit to fiscal year 2001 and the first half of fiscal year 2002, encompassing the eighteen months from July 2000 through December 2001. This covers the period when the imprest accounts were reactivated.

This audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary.

In conducting this audit, we:

- Documented our understanding of the system of internal controls over the administration of the imprest checking accounts.
- Reviewed all reimbursements of the imprest accounts by the City during the eighteen-month period.
- Reviewed the imprest checks (on a test basis) to determine that controls over the payment process were in place and functioning properly.
- Summarized the activity of the two imprest checking accounts for the eighteen-month period and reperformed the bank reconciliations as of December 31, 2001.
- Agreed the reconciled bank balances in each account to the imprest fund account balance.

AUDIT RESULTS:

Our testing of the procedures and controls pertaining to the imprest checking accounts for automotive and general liability indicated that procedures were adequate and that checks issued for claim expenses were supported by documentation. However, we did note the following conditions that need to be addressed.

The Law Department did not reconcile the activity in the two imprest funds and did not adjust reimbursements based on actual expenditures.

The Law Department did not periodically reconcile the unexpended cash and disbursements in the two imprest funds to the authorized imprest fund amounts. On July 1, 2000, the automotive liability account had \$37,890 or \$27,890 in excess of its authorized amount of \$10,000. The general liability account had \$34,360 or \$14,360 in excess of its authorized amount of \$20,000. The average month-end balance was in excess of the authorized level by \$33,817 and \$11,868, respectively for the automotive liability and general liability accounts.

For the automotive liability, twenty-nine of the forty reimbursements exceeded the authorized imprest amount of \$10,000. The average amount of the forty automotive liability reimbursements was approximately \$15,100. For the general liability, two of the forty reimbursements exceeded the \$20,000 authorized balance; the average reimbursement was about \$10,650.

The Law Department did not write off outstanding stale-dated checks.

The Law Department did not write-off outstanding stale-dated checks. Our tests of thirty checks written on the two imprest accounts disclosed that three outstanding checks were over 180 days old. The bank reconciliation as of December 31, 2001 included \$5,280 of stale-dated checks as outstanding in the automotive liability account and \$2,450 in stale-dated checks in the general liability account.

RECOMMENDATIONS:

We recommend that the ORM and the Law Department reconcile the unexpended cash and disbursement in the two imprest accounts to the authorized fund amounts. Excess cash should be returned to the City or be used to reduce subsequent reimbursements.

We also recommend that the Law Department review the claim files pertaining to the checks outstanding for more than 180 days to determine if the obligations for which these checks were issued are still unsatisfied. If the obligations have been otherwise met, the checks should be credited back to the proper accounts. If the obligations are still open, replacement checks should be issued without reimbursement, and the original checks should be removed from the list of outstanding checks.

The response of the Law Department to our recommendations is included as an appendix to this report.


We appreciate the cooperation and assistance provided by staff members of the Office of Risk Management and the Law Department.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

APPENDIX I

**CITY OF BALTIMORE
DEPARTMENT OF LAW'S
RESPONSE TO THE
PERFORMANCE AUDIT
LIABILITY IMPREST ACCOUNTS**

FROM	NAME & TITLE	Arche L. McAdoo, Law Office Administrator	CITY of BALTIMORE MEMO	
	AGENCY NAME & ADDRESS	Department of Law 106 City Hall, 6-3202		
	SUBJECT	Follow-up to Audit Response of June 7, 2002 Imprest Accounts		

TO

DATE

Yvonda D. Brooks, City Auditor
Department of Audits, 321 City Hall

August 8, 2002

After meetings with the Office of Risk Management personnel, we have taken the following actions:

- 1 The Law Department has identified the excess amounts in both imprest funds and reconciled to the respective bank statement. The Law Department will continue to issue checks from the imprest accounts; however, no requests for reimbursement will be submitted until the actual bank balance for Auto Liability reaches \$7,500.00 or less and General Liability reaches \$10,000.00 or less. We will monitor the bank balance on a daily basis prior to issuing checks.
2. In order to expedite reimbursements to the imprest accounts, the Law Department will prepare and submit such DPOs with the appropriate back-up documentation directly to disbursements; and a copy to Risk Management. Currently, the check for reimbursement funds is returned to the Law Department and deposited in the bank account. The Law Department will work with Accounting and Treasury Management to facilitate having this done by electronic funds transfer.
3. The Law Department has reviewed 15 checks that are outstanding for more than 180 days and determined that all the checks were mailed to the appropriate payee. These checks will be voided. A letter, with a list of the stale checks, will be sent to First Union Bank advising them that the checks are stale and should not be honored. This letter will also re-emphasize that checks issued from the specified accounts are void after 180 days from the date of issuance, and are not to be honored by the bank.

If you have questions or require additional information, please let me know.

cc: Thurman W. Zollicoffer, Jr., City Solicitor
Richard Jarry, Office of Risk Management
Gail Adams, Audits
Arthur Lyons, Audits

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